



RESERVE BANK OF VANUATU

INSURANCE COMPANIES AND INTERMEDIARIES

PRUDENTIAL GUIDELINE NO. 1

GUIDANCE NOTES FOR INSURANCE LICENCE

APPLICATION

Statement of objectives

In order to ensure that Vanuatu maintains its reputation as a well regulated international financial centre it is imperative that all companies required to be licensed under regulatory laws are licensed in accordance with a firm and clearly defined licensing criteria.

The Reserve Bank recognises that a high standard of licensing provides the necessary foundation for effective regulation and supervision. There is therefore a need for rigorous criteria to be applied when processing all applications.

The Application

It is sometimes beneficial to first submit an application in draft form. Although by Law applications should be processed within six months from when received, it is not

uncommon for applicants to find that they need extra time to sort out any issues raised, before finalising their application. It is possible to avoid having a formal application rejected by resolving any difficult issues before applying formally. The draft application should be on the same form as the formal application but unsigned. Once any issues raised on the draft application are resolved, a formal application with any changes to be made may then be submitted.

Please realise that short answers to questions may not be helpful to the supervisor. What we want to know is how and why the company is seeking to write insurance business, so please send as much background information as possible.

All questions must be answered

Full details of what needs to go into the application are set out later in these notes.

We will process your application, or draft as soon as possible and respond within four weeks. However the length of time to complete the process will depend on various factors, including the complexity of your proposal, the content and quality of the application and your response to any questions that may arise.

You may be asked to attend a further meeting if there are any points on which we are not clear.

Legal Requirements

A licence cannot be issued unless;

- You have provided all the information specified in the relevant parts of the Insurance Act NO. 54 of 2005; and
- The Reserve Bank is satisfied, from all the information received, that the licence should be granted. A licence will not be approved if the Governor considers that any of the company's directors, officers or proposed managers are not fit and proper to hold their positions, or that their appointment would not be conducive to sound and prudent management of the company.
- Share capital should be paid up to at least the minimum required
- If the company is incorporated in another jurisdiction, a certificate of good standing will be required and confirmation that the regulator in that jurisdiction approves the subsidiary or branch office
- If the company is a captive insurer a resident manager must be appointed
- An insurance company incorporated and licensed in Vanuatu will maintain all insurance records and a managed office in Vanuatu.

- The company meets the required solvency margin
- Compliance with current Money laundering regulations.

Ownership and control

A minimum of two directors is required on all entities except approved captive insurance companies. Any change in directors, officers and managers must be approved by the Reserve Bank.

All insurance companies, or their respective management companies, must have in place compliance and procedure manuals and internal controls to ensure effective management.

Capital

- We will need to be satisfied that you will have enough financial resources to support the business proposed and to provide the margin of solvency needed for the first three years.
- A company carrying on domestic insurance must maintain assets in Vanuatu equal to liabilities and until these are ascertained a deposit will be required based on the financial projections provided.
- When deciding whether a company applying to carry on general insurance business has sufficient financial resources, we take into account, probable capital expenditure, expected early underwriting losses and possible loss on investments during the first years of operation.
- For companies who want to carry on life insurance business, we will consider capital expenditure and "new business strain" caused by introductory commissions during the first three years of operation.
- The financing required will depend on the type of business proposed, the expected size of the business and the projected speed of development.

Business plan

All the information specified in the Act and Regulations must be included in the business plan when submitted with the application otherwise it will delay the processing of the license approval.

The information provided should identify assumptions and qualify accordingly.

We expect to receive projected accounts for the first three years and the figures used should be those you expect to appear in the returns to the Commissioner. It is therefore important that the financial projections are given in the format shown in the audit guidelines available from the Commission.

It would be useful to be given separate information on each class of business proposed. For long term insurers an actuarial study must accompany the application.

Details to be included in plan of operations;

- The sources of business (for example, brokers, agents, own employees, independent salesmen or direct selling)
- The nature of the risks which the company proposes to underwrite,
- A draft reinsurance program
- Amount of Capital proposed and investment policy for assets
- Estimated costs of installing administrative services and organisation for securing business and the financial resources available to cover those costs.
- Copies of proposed agency or broker agreements
- Copy of proposed management agreement if appropriate
- Copy of proposed underwriting authority for main agents if applicable.

Any changes to the business plan must be notified to the Reserve Bank immediately

Management and Internal Systems

A licensed insurance company is expected to be managed by competent and suitably qualified and experienced people.

Whilst we will consider each case on its merits it is expected that at least one member of the board will have substantial and recent experience in insurance affairs.

In determining whether a person is fit and proper all relevant circumstances will be considered and will include that those persons possess:

- a. Honesty, integrity and good reputation,
- b. Competence and capability
- c. Financial soundness

Applicants may refer to the Statement of Guidance on Fitness and Propriety for further details on the criteria used by the RBV

In the case of a principle representative, (Insurance Manager or Main Agent), this can be an individual or a company.

Similar requirements relating to experience and propriety apply, however the company may not also be the auditor or actuary of the company.

All insurance companies or their respective management companies must have in place, compliance and procedures and internal control systems, to ensure effective management and compliance with the relevant law.

Record keeping

Management information should be both timely and accurate and supported by full and accessible records. Such records may be in electronic form and should be accessible by the RBV. Approval is required from the Governor to locate records overseas.

The following records are required;

- Policy register
- Current insurance policies, - direct policies - reinsurance contracts and agreements;
- Other agreements - management, claims, investment management, custodian and other service agreements
- Statutory records - board meeting minutes and up to date business plan;

Main Agent

A main agent is a person who underwrites general business of a company which is authorised to carry on insurance business in Vanuatu. Similar experience to that of an insurance manager is required

Auditors

You will have to appoint an auditor in Vanuatu who is experienced in the auditing of insurance companies and who complies with the requirements of the Insurance Act and is approved by the Governor.

Actuaries

The appointment of an actuary is required for life insurance companies and must also comply with the requirements of the relevant section of the Insurance Act.

Reinsurance

You must describe the guiding principles for the outward reinsurance of your business. Give the maximum retention per risk or event after all reinsurance ceded. We will need to be satisfied that the reinsurance for each class of business is adequate.

The principle guidelines for general business reinsurance are as follows;

- Each company should retain for its own account, a significant portion of the business written. This does not prevent particular risks from being 100% reinsured
- No reinsurer should have an international rating of less than BB+
- Reinsurance should be reasonably spread
- No insurer would be expected to retain for its own account on any one risk more than 10% of its assets. Captives which insure only the risks of its parent or a group may have a higher net retention.
- Please discuss with the Commission if these principles would be difficult to operate.

If reinsurance arrangements cannot be finalised until we have issued a license you must provide a letter from your reinsurer or reinsurance broker confirming the arrangements being made.

In these circumstances we will impose a condition on the license that it will become effective when certified copies of the reinsurance cover notes or contracts have been received and approved by the Governor.

Other Activities

Under the Insurance Act licensed insurance companies must not carry on activities other than that of insurance, except for the purposes of and in connection with the insurance business for which they are licensed.

If you are uncertain whether a particular activity is prohibited you should discuss with us before you apply for a license.

Composites

Apart from permanent health care (policies of at least five years) we cannot issue a license for both long term and general insurance business.

If a company wishes to write both it must form two separate companies and each must apply for a separate licence in its own right.

Licence decision

It is our intention to advise you of our decision within one month of receiving all the necessary information that is required.

When we are satisfied that you have complied with all requirements (share capital paid in, incorporation etc.) a licence will be issued. At that stage we would ask that you inform us in writing, of the date on which you commence writing business in each class.

You will be expected to commence business as soon as possible and we must advise you that if business has not commenced in all approved classes within six months of the date of issuing the licence, the licence may be withdrawn.

The following completed forms should accompany the application;

- Application form for a licence for;
- Insurance Company,
- Insurance Broker
- Insurance Agent
- Insurance Manager
- Insurance Loss adjuster or Loss assessor.
- Form "5" from each shareholder, director and officer,